Legislative suggestions of the EnCS on stimulating RES

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Kiev, 10.10.2017
The Winter Package (1 out of 2)

- EnCS considers the Winter Package the sustainable solution/way out for RES integration into the electricity markets.
- Winter Package targets:
  - increase investor certainty
  - working towards sustainable climate and energy targets
- RES support schemes to be granted in a competitive manner (auctioning)
- Guidelines on state aid for environmental protection and energy need to be properly observed when establishing new RES support schemes.
The Winter Package (2 out of 2)

- One stop shop for permitting and licensing procedures
- Simplified procedures for connection to DSO networks especially for the small scale RES
- RES prosumers treated differently than suppliers
- Market-orientated and cost-effective RES
  - How to introduce RES into the market design without creating non-bearable risks to investors
Auctioning – the EnCS approach

- Different types/multiple options
- The auctioning design is a science in its self
- Revealing the most cost efficient price for the support scheme
- Pay as bid is the preferred pricing method
- Selection and financial criteria
- Auctions have the maximum added value when they are performed later in time i.e when the process is already mature enough
- EnCS aims at proposing a common regulatory framework (guidelines) in the EnC area targeting the RES auctioning process
State Aid Guidelines and associated risks

- **Support schemes should progressively phase out**
- **Where Intra-day markets exist, even those RES enjoying priority dispatch and support, should start bearing imbalance costs**
  - Undertake the cost that forecast errors bring into the systems
  - Utilise Intra-Day Market to hedge the exposure related to forecast errors
- **Can investors deal with that risk?**
  - In mature markets, definitely yes
  - In markets where no history exists on imbalance volumes and corresponding price exposure the risk should be progressively addressed – training phase
- **The new Electricity Market Law in Ukraine fully respects the above State Aid provisions**
Market oriented and cost effective RES

- Priority Dispatch to stay until 15% penetration on installed capacity is achieved
- Then priority dispatch should be eliminated (it remains for existing projects and the small ones)
- RES should bid into the spot markets and be dispatched if competitive
- Price takers combined with simple FiP support scheme
  - The distortion is not resolved
  - The prices in the spot market will be driven to lower levels
  - If support is granted on top of the market price then RES have no incentive to stop this distorting process
- RES to be integrated in a way that will incentivise them to set the market price
Support not directly connected to energy markets

✓ **Capacity mechanisms /markets**
  ✓ Winter Package – coal is ruled out
    ✓ generation capacity existing or in construction only if its emissions are below 550 grams of CO2 per k

✓ **Is capacity mechanisms/markets the way out for RES?**
  ✓ RES could be part of this support (still way to go but technology is progressing)
  ✓ Capacity mechanisms, if not well designed, are distorting the energy spot markets
  ✓ But, if the problem is created, will not be technology specific
How RES are integrated in the New Market Rules for Ukraine

✓ Existing RES enjoy priority support under the FiT
✓ Existing RES will not face imbalance costs
✓ New RES under support schemes will face imbalance costs from the day the IDM starts operating and this will be progressively and smoothly allocated to them
✓ The New Market Rules were drafted to fully integrate RES projects into the wholesale level for whenever there will be a decision to phase out support connected to the energy market
✓ The software to be procured should foresee their future merchant participation
Integration can be achieved-bankability?

- Integration can be achieved
- Would investors then be willing to take the risk?
- Would the projects be bankable?
- There is no risk free business in the modern economy
- Bankers will go ahead if the risk can be assessed
  - Risk free business (guaranteed long term PPAs) could eventually become boomerang
- The associated market is a well designed market:
  - true, non distorted, prices are revealed
  - well monitored and guarded by the regulator
  - its statistics create confidence
Thank you for your attention!

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